

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

FIRST SET OF INFORMATION REQUESTS TO COLONIAL GAS COMPANY  
D/B/A  
KEYSPAN ENERGY DELIVERY NEW ENGLAND

D.T.E. 04-86

Respondent: Ann Leary

Information Request: 1-11

Q. Refer to Att. B of the Company's filing. Please discuss whether non-recovery of the proposed exogenous costs will affect the Company's operations.

A. In Eastern/Colonial Acquisition, D.T.E. 98-128 at 54 (1999), the Department defined exogenous costs as positive or negative cost changes beyond a Company's control *that would significantly affect the company's operations* (emphasis added). The Department also accepted the Company's proposal that for Colonial a change in the Department's regulatory policy regarding LBR, that has cost consequences, be deemed an exogenous cost eligible for proposed recovery. *Id.* at 55.

In D.T.E. 98-128, the Department approved a ten-year rate freeze, during which the Company will absorb all increases in operating costs. See also, Colonial Gas Company, DTE 00-73 at 23-24 (2001). As costs increase and earnings decrease, the ability of the Company to continue making necessary capital improvements and system investments will be significantly diminished. Moreover, if the DTE disallowed the recovery of the \$1,108,022 exogenous cost requested by the Company, the Company's return on equity (based on 2003 financial information, 2004 financial information is not yet available) would decrease from 9.30 percent to 8.62 percent. This return is significantly lower than the 11.19 percent ROE agreed upon in Colonial's last rate proceeding for purposes of working capital calculations, Colonial Gas Company, D.P.U. 93-78, at 4 (1993) and the 10.2 percent recently allowed in the Boston Gas rate proceeding, Boston Gas Company, D.T.E. 03-40 (2003).

Finally, the Department has stated that to qualify for exogenous cost recovery the cost for which exogenous cost recovery treatment is proposed must meet a monetary threshold based on a company's size. These thresholds are company specific and reflect a "principle of proportionality" in relation to the Company's operating revenues. Colonial Gas Company, D.T.E. 00-73 at 20-21 (2001) citing

D.T.E. 98-128 at 55-56. For Colonial, the threshold amount must exceed \$250,000. D.T.E. 98-128. In this case, Colonial is seeking to recover \$1,108,022 – that equals 4.43 times the threshold level.